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RUEHBUL/AMEMBASSY KABUL PRIORITY 1364  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 2190  
RUEHNY/AMEMBASSY OSLO PRIORITY 4461  
RUEHKO/AMEMBASSY TOKYO PRIORITY 3562  
RUEHCG/AMCONSUL CHENNAI PRIORITY 8619  
RUEHKP/AMCONSUL KARACHI PRIORITY 2373  
RUEHPW/AMCONSUL PESHAWAR PRIORITY 0347  
RUEHON/AMCONSUL TORONTO PRIORITY 0723  
RUEHGV/USMISSION GENEVA PRIORITY 2882  
RHHMUNA/HQ USPACOM HONOLULU HI PRIORITY  
RHEFDIA/DIA WASHINGTON DC PRIORITY  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY  
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C O N F I D E N T I A L SECTION 01 OF 05 COLOMBO 000721

SIPDIS

DEPARTMENT FOR SCA A/S BOUCHER

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TAGS: [PGOV](#) [PREL](#) [PTER](#) [PHUM](#) [MOPS](#) [PINR](#) [ECON](#) [CE](#) [MV](#)

SUBJECT: SCENESETTER FOR A/S BOUCHER'S VISIT FOR THE 15TH  
SAARC SUMMIT

REF: A. COLOMBO 653

[1](#)B. IIR 6816007808

Classified By: Ambassador Robert O. Blake, Jr., for reasons 1.4(b,d).

[1](#)1. (C) Summary and Introduction: Your visit for the 15th SAARC Summit finds most SAARC member countries preoccupied with domestic issues. After surviving a no-confidence vote, the Indian government is looking ahead to national elections next year, and frustrated that last minute objections from Sri Lanka's political opposition prevented the signing of the Sri Lanka-India Comprehensive Economic Partnership Agreement. Tension in the Pakistani-Indian relationship remains significant following the Kabul Indian Embassy bombing. The Bangladesh delegation is led by a caretaker government, while it is still unclear who will lead the Nepalese delegation. Prospects for SAARC to overcome its history as an institution of limited effectiveness therefore remain modest. For your bilateral meetings in Colombo, you will find the Sri Lankan Government cheered by recent military progress north of Mannar that makes progress on a peace process unlikely before at least the end of the year. The Maldivians face a budget crisis, continued delays in ratifying the new constitution and establishing the key independent institutions that will supervise the country's first ever Presidential elections this fall. End Summary and Introduction.

SAARC AGENDA

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[1](#)2. (U) Amid much opposition sniping over lavish GSL expenditures and a security dragnet over much of central Colombo that has those residents that can heading for the hills or southern beaches, SAARC Foreign Ministers are expected to sign on August 3 three, perhaps four agreements. The most significant will establish a \$300 million SAARC Development Fund focused on projects within SAARC countries. India has pledged an additional \$100 million to this effort. Embassy Kathmandu reports that according to an official from Nepal's Ministry of Foreign Affairs, SAARC intends to make observation guidelines more comprehensive and hopes to have a mechanism for high-level interaction between member and observer nations for the summit in 2009, including possible

participation in summit sessions. (Burma has applied for observer status; a decision to accept its application may be made at the Summit.) Heads of State are also expected to discuss a three-year plan of action for addressing climate change that Ministers of Environment formulated in Dhaka on July 3. Other agenda items include the shortage of food and oil as well as problems of terrorism, according to public statements by Nepalese Foreign Secretary Gyan Chandra Acharya and GSL officials.

#### SRI LANKA: GOVERNMENT BETS ALL ON MILITARY VICTORY

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¶3. (C) In Sri Lanka, your visit comes on the heels of a significant military victory by government forces at Vidattalthivu on July 16, the most important LTTE Sea Tiger base along the western coast held by the Tigers for 19 years (ref B). On July 18, Secretary of Defense Gothabaya Rajapaksa predicted to Ambassador that the government would continue this offensive along the Western coast and be able to reach Pooneryn by the end of the year. If accomplished, this would represent an important shift in the military balance toward the GSL. It would place the whole of the western coast in government hands, limit smuggling by Indian fishermen to the LTTE along the west coast, and open a direct road to the Jaffna peninsula, which has effectively been cut off from the mainland since the August 2006 closing of the main north-south A9 highway. While we and most others still do not believe a purely military solution will be possible, recent advances have breathed new enthusiasm into the

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military effort. Foreign Minister Bogollagama rejected the LTTE's July 21 unilateral ceasefire declaration for the Summit and declared in Parliament the following day that the Government would not enter into a truce agreement with the Tigers.

¶4. (C) While the government remains vulnerable on the issues of inflation and corruption, the President's Sinhalese base appears willing to bear almost any burden as long as the perception prevails that the GSL is winning the war against the LTTE. President Rajapaksa's divide-and-rule tactics, luring members of other parties to defect to his ruling coalition, have so far succeeded in weakening the Sinhalese nationalist JVP and the main opposition party UNP. His strategy appears to be to build political momentum through military victories and then test his (and his party's) popularity through a series of Provincial Council elections. Following on the elections in the Eastern Province, two more provincial elections will take place on August 23, and the campaigns are well underway (ref A). If the government and its allies continue to do well in these elections, and sustain their military progress, the President will likely call Parliamentary elections in early 2008 to secure a more workable Parliamentary majority. We recommend we use your meeting with the President to probe his thinking on the future military and election timetable.

#### PEACE PROCESS MORIBUND

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¶5. (C) As a consequence of the GSL's overall strategy, the peace process has been in hibernation as the GSL tries to weaken the LTTE militarily as much as possible. Since the beginning of this year the authorities have refused on security grounds a request by the Norwegian Ambassador to travel to the Vanni for a meeting with the LTTE. However, the security concern is likely a smokescreen for the fact that the government simply does not want a Norway-LTTE meeting to take place. (The GSL permits UN officials to travel to the Vanni on a regular basis.) Basil Rajapaksa hinted to the Norwegian Ambassador that the GSL might permit him to travel to Kilinochchi to meet with the LTTE, but there has been no concrete progress and the Ambassador is now on leave until the end of August. President Rajapaksa's

principal condition for resuming talks is for the LTTE to lay down its arms. The Ambassador has told the GSL this is clearly a non-starter, which the LTTE has already rejected.

16. (C) Meanwhile, prominent Sri Lankans and interested members of the international community are pursuing a number of Track 1.5 and 2 initiatives to resolve Sri Lanka's ethnic conflict with very limited results. The most promising effort is the One Text Initiative (OTI) which brings together senior political leaders to tackle difficult issues, such as access to humanitarian goods and services, and language policy. In the long term, OTI aims to build confidence and trust among stakeholders necessary for future peace talks. However, the real power brokers in the Rajapaksa Administration have so far not been involved. Our interlocutors on these initiatives consistently emphasize that their efforts should remain out of the media spotlight to keep Sinhalese nationalists from pressuring the government to disengage. We will continue quietly to support these efforts and encourage political leaders to remain involved. In particular, we see attempts to bring in Sinhalese nationalists in the South as well as the Tamil Diaspora community as important in laying the groundwork for future negotiations. We recommend you urge the President and other GSL interlocutors that they use the next six months to begin serious thinking on their strategy both to forge a credible power-sharing proposal, building on the important progress the All Parties Representative Committee has made, and engage the LTTE. The Ambassador has pointed out to senior officials

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that even in the most optimistic scenario whereby the GSL occupies all of the Vanni, a significant LTTE residual force would go underground and continue terrorist attacks so the LTTE leadership must be engaged at some stage to persuade them to lay down their arms.

PROGRESS BUT NO FURTHER CHILD SOLDIER RELEASES  
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17. (C) We are pushing both GSL officials as well as new Eastern Province Chief Minister "Pillaiyan" to cooperate with UNICEF to secure the release of the 66 remaining children in UNICEF's case files, as well as to establish effective mechanisms to ensure further recruitment does not take place.

Since DAS Feigenbaum's visit, UNICEF and GSL have signed an agreement on information sharing that lays the groundwork for joint UNICEF-GSL verification teams to identify and secure the release of the children in UNICEF's database. Both sides are also exploring options for a public information campaign to communicate the government's stated zero tolerance policy on child soldiers. While no further releases have occurred, the increased cooperation is welcome news. Implementation of a robust joint monitoring mechanism, coupled with a significant decline in UNICEF's numbers and a public education campaign, would go a long way to convince us that the GSL is taking "effective measures" to demobilize child soldiers and prevent their recruitment in the future as required by U.S. law.

HUMAN RIGHTS REMAINS A SIGNIFICANT CONCERN  
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18. (C) We have seen relatively little movement on our other bottom-line requests to the GSL on human rights. We have repeatedly and through various channels conveyed to senior officials that we need, at a minimum, to see evidence of resolve in pursuing justice in the headline "Trinco 5" and ACF cases under consideration by the President's Commission of Inquiry. The way the GSL handled the end of the mission of the Eminent Persons and its aftermath - particularly quashing the attempts of the Commission of Inquiry to obtain further video testimony from victims and witnesses - leave doubt about the government's intentions to let the truth come out. We have also told them that improvement on disappearances will help us return to a more normal security

relationship and get the Congressional restrictions on military assistance and training lifted. Unfortunately, the ICRC and other sources have documented that disappearances are again on the rise. Finally, we have urged that if the GSL is not willing to accept a full-fledged mission from the Office of the High Commissioner for Human Rights, it should appoint internationally credible persons to lead the national Human Rights Commission to assure its independence and effectiveness. This also has not happened. Likewise, threats to the media continue and our efforts to urge the GSL to release Tissainayagam, the media case most international human rights groups are focused on, have proved fruitless.

#### ECONOMY RESILIENT DESPITE THE CONFLICT

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¶9. (SBU) In 2007, Sri Lanka continued its healthy economic growth, reporting a 6.8% increase in real GDP. (Note: Actual growth may have been closer to 6%). Total GDP was \$32 billion, yielding a per capita income of about \$1,600. The GSL is proud of this performance, even though it falls short of the "Mahinda Chintana" goal of 8% annual growth as the means to reduce poverty rapidly. The missing 2% demonstrates the consequence of the GSL's pursuit of a military solution to the conflict, as the World Bank and others estimate that the conflict has cost Sri Lanka about 2% in forgone GDP growth annually. Military spending contributes significantly to the government deficit (7.7% of GDP in 2007) that is

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driving high inflation -- over 28% in June. The government downplays the impact of deficit spending by overstating the role of high prices of imported commodities -- mainly oil and food -- as drivers of inflation. The rising cost of living is a political concern to the government, but has not yet produced any serious protests. Microsoft, Citibank, Coca-Cola, AIG, and power producer AES are among the few U.S. companies operating in Sri Lanka; many other brands are represented by local agents. The conflict, tender transparency issues, and investment obstacles continue to deter greater U.S. investment.

#### MALDIVES AT A TURNING POINT

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¶10. (C) Maldives' first multiparty presidential elections are due no later than October, but tensions are rising as preparations lag. The draft of the new constitution is complete, but so far, President Gayoom has not agreed to sign it. The Minister of Information and Legal Reform stated (on his personal blog site) that the President would ratify the Constitution on July 30, but there is no official confirmation of this. Gayoom has become increasingly isolated through the resignations of key ministers and is likely getting questionable advice from family members and cronies who are reluctant to give up or share power. Moreover, numerous pieces of reform legislation needed to carry out free and fair elections have languished in the Majlis (Parliament).

¶11. (C) Opposition parties are again resorting to street agitation to try to increase the pressure on Gayoom to yield on the constitution. Private polling shows that Gayoom probably does not command majority support, but the opposition has not yet been able to coalesce around a common candidate. A re-election of Gayoom, one of the longest-serving rulers in the world, would have profound negative consequences for Maldives' stability if the general public perceives it as rigged and could give new impetus to Islamic extremists seeking a foothold in Maldives. Gayoom has a healthy ego; we may be able to appeal to his vanity by urging him to secure his legacy as the man who ushered in the first true democracy in the Muslim world and brought his country into the twenty-first century. If, by the time of your meeting, he has not ratified the Constitution you should urge him and other senior officials to do so, pass the

implementing legislation for the independent judiciary and Election and other Commissions that will be needed to oversee the elections.

¶12. (C) The Ambassador has twice raised with FM Shahid USG concerns about increasing reports (including by ICRC and other credible observers) that the conditions in Maldivian prisons, which had been improving, have suffered a setback recently, with more numerous reports of torture and abuse. The U.S. provides significant training to the Maldivian security forces and conducts a number of joint exercises with them. Our counterterrorism cooperation is also important to us. It will be important to emphasize in confidential meetings with Maldivian security officials that such practices are relics of the past and could jeopardize our cooperation.

#### MACROECONOMIC RISKS AS DEFICIT SOARS

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¶13. (SBU) Meanwhile, despite strong GDP growth of 7-8% annually, the government recently stated that the economy is in recession. In early July, the Auditor General revealed a staggering 2008 deficit of \$342 million when several large infrastructure projects (and their related fees) failed to materialize. This caused the resignations of three important Ministers -- Finance, Trade and Tourism -- following heavy

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criticism by the Majlis. (Many speculate that Finance Minister Qasim Ibrahim's resignation is setting the stage for his own presidential bid.) The IMF and World Bank have for several years urged government restraint and fiscal responsibility, noting in particular concerns about exceptionally high overall expenditures of near 70% of GDP (2008 budget). Inflation, which stood at 7.4% in 2007, is expected to grow as imported commodities, primarily oil and food, continue to rise in price.

¶14. (U) All of us in Mission Colombo appreciate your visit and your continued engagement on the challenging issues we face. We look forward to welcoming you in Colombo and Male.  
BLAKE